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## SEC and PCAOB alert - 20008; Audit risk alerts

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SEC and PCAOB Developments – 2008

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A U D I T   R I S K   A L E R T

2008

# SEC and PCAOB Developments

STRENGTHENING AUDIT INTEGRITY  
SAFEGUARDING FINANCIAL REPORTING



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AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS

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# SEC and PCAOB Developments

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SAFEGUARDING FINANCIAL REPORTING



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## Notice to Readers

This Audit Risk Alert provides auditors and accountants practicing in business and industry with a detailed overview of recent developments at the Securities and Exchange Commission and Public Company Accounting Oversight Board with respect to financial reporting and auditing matters.

This document has not been approved, disapproved, or otherwise acted upon by a senior technical committee of the AICPA.

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## Securities and Exchange Commission Developments

**.01** The summaries that follow are for informational purposes only and should not be relied upon as a substitute for a complete reading of the applicable rule or development. In addition, the information presented in the following does not encompass all of the recent issuances and activities of the U.S. Securities and Exchange Commission (SEC). See the SEC Web site at [www.sec.gov](http://www.sec.gov) for complete information.

### SEC Final Rules

#### ***Extension Granted Involving Internal Control Over Financial Reporting***

**.02** On June 26, 2008, the SEC released the final rule *Internal Control Over Financial Reporting in Exchange Act Periodic Reports of Non-Accelerated Filers*, which amends a temporary rule. The final rule extends the time period that a nonaccelerated filer would be required to provide the auditor's attestation report on internal control over financial reporting in an annual report filed for fiscal years ending on or after December 15, 2009. The temporary rule had originally set a requirement of December 15, 2008. This amendment therefore extends that requirement one year. The full text of this rule can be found at [www.sec.gov/rules/final/2008/33-8934.pdf](http://www.sec.gov/rules/final/2008/33-8934.pdf).

#### ***SEC Eases Acceptance of International Financial Reporting Standards Financial Statements***

**.03** On December 21, 2007, the SEC took a major step toward easing the acceptance of International Financial Reporting Standards (IFRS) financial statements by adopting rules to accept from foreign private issuers financial statements prepared in accordance with IFRS as issued by the International Accounting Standards Board (IASB) without reconciliation to U.S. GAAP. This rule marks an important step in the process toward the development of a single set of high quality, globally accepted accounting standards. This rule became effective March 4, 2008. Readers can access this rule at [www.sec.gov/rules/final/2007/33-8879.pdf](http://www.sec.gov/rules/final/2007/33-8879.pdf).

**.04** More than 100 countries now either require or allow the use of IFRS for the preparation of financial statements by listed companies, and additional countries are moving to do the same. This recent movement to IFRS outside the United States has resulted in an increase of filings with the SEC of foreign private issuers that represent in the footnotes to their financial statements that their financial statements comply with IFRS as published by the IASB—from a relative few in 2005 to approximately 110 in 2006. The SEC expects this number will continue to increase in the future, particularly pursuant to Canada's announced move to IFRS, as there currently are approximately 500 foreign private issuers from Canada.

**.05** This movement to IFRS also has begun to affect U.S. issuers, in particular those with a significant global footprint. For instance, certain U.S. issuers may compete for capital globally in industry sectors in which a critical mass of non-U.S. companies report under IFRS. Also, U.S. issuers with subsidiaries located in jurisdictions that have moved to IFRS may prepare those subsidiaries'

financial statements in IFRS for purposes of local regulatory or statutory filings. Readers should remain alert to developments regarding convergence.

### ***Smaller Reporting Company Regulatory Relief and Simplification***

**.06** On December 19, 2007, the SEC adopted amendments to its disclosure and reporting requirements under the Securities Act of 1933 and the Securities Exchange Act of 1934 to expand the number of companies that qualify for its scaled disclosure requirements for smaller reporting companies. Companies that have less than \$75 million in public equity float will qualify for the scaled disclosure requirements under the amendments. Companies without a calculable public equity float will qualify if their revenues were under \$50 million in the previous year. To streamline and simplify regulation, the amendments move the scaled disclosure requirements from Regulation S-B into Regulation S-K of the Securities Act of 1933. The rule became effective February 4, 2008, except for Title 17<sup>1</sup> U.S. *Code of Federal Regulations* (CFR) Part 249.308b Form 10-QSB, which will be removed effective October 31, 2008, and 17 CFR 228 and 249.310b Form 10-KSB, which will both be removed effective March 15, 2009. The full text of this rule as well as detailed compliance information and dates can be found at [www.sec.gov/rules/final/2007/33-8876.pdf](http://www.sec.gov/rules/final/2007/33-8876.pdf).

### ***Electronic Filing and Revision of Form D***

**.07** On February 6, 2008, the SEC adopted rule amendments mandating the electronic filing, via the Internet, of information required by the Securities Act of 1933 Form D. The SEC also adopted revisions to Form D and to Regulation D in connection with the electronic filing requirement. The revisions simplify and restructure Form D and update and revise its information requirements. The information required by Form D will be filed with the SEC electronically through a new online filing system that will be accessible from any computer with Internet access. The data filed will be available on the SEC Web site and will be interactive and searchable. This rule is effective September 15, 2008, except for amendments to 17 CFR 232.101(c)(6) and 232.201(a) that are effective March 28, 2008, 17 CFR 232.101(a)(1)(xiii) that is effective March 16, 2009, and 17 CFR 230.503T, 232.101(b)(10), and 239.500T that are effective from September 15, 2008 to March 16, 2009. The full text of this rule can be found at [www.sec.gov/rules/final/2008/33-8891.pdf](http://www.sec.gov/rules/final/2008/33-8891.pdf).

**.08** This rule is another step toward streamlining the filing process with the SEC and moving toward eXtensible Business Reporting Language (XBRL) filing. The Center for Audit Quality (CAQ), which is affiliated with the AICPA, commented on this rule and recommended that all Form D information be filed in the standard XBRL format. The full text of the comment letter can be found at [www.thecaq.org/members/pdfs/CAQ\\_Letter%201\\_071307.pdf](http://www.thecaq.org/members/pdfs/CAQ_Letter%201_071307.pdf). In addition, there is a separate section of this alert, "Interactive Data and XBRL Initiatives," that provides further information on XBRL.

### **SEC Interpretive Releases**

**.09** On August 1, 2008, the SEC issued an interpretive release that provides guidance on the use of company Web sites under the Securities Exchange

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<sup>1</sup> The 2008 version of Title 17, *Commodity and Securities Exchanges*, of U.S. *Code of Federal Regulations* can be found at [www.access.gpo.gov/cgi-bin/cfrassemble.cgi?title=200817](http://www.access.gpo.gov/cgi-bin/cfrassemble.cgi?title=200817).

Act of 1934 and the antifraud provisions of federal securities laws. The SEC is soliciting comments on issues relating to the use of company technology to provide information to investors. The full text of the release can be found at [www.sec.gov/rules/interp/2008/34-58288.pdf](http://www.sec.gov/rules/interp/2008/34-58288.pdf).

## **SEC No-Action and Exemptive Orders**

**.10** To respond to an inquiry from a public company, the SEC issues Securities Exchange Act of 1934 no-action and exemptive orders, as needed. Exemptive orders are similar to no-action letters because they grant permission from the SEC to move forward on a new initiative. Exemptive orders are issued by or on behalf of the SEC and may exempt a certain type of transaction or situation from designated provisions of the securities laws. No-action letters are issued by SEC staff and indicate whether the staff would recommend that the SEC pursue an enforcement action if the person or entity requesting the letter takes, or omits to take, certain actions. Recently issued no-action and exemptive orders can be found at [www.sec.gov/interps/noaction.shtml](http://www.sec.gov/interps/noaction.shtml).

## **SEC Proposed Rules**

### ***Modernization of the Oil and Gas Reporting Requirements***

**.11** On June 26, 2008, the SEC proposed revisions to its oil and gas reporting requirements, which currently exist under Regulations S-K and S-X, as well as Securities Act Industry Guide 2, "Disclosure of Oil and Gas Operations." The revisions are intended to provide investors with a more meaningful and comprehensive understanding of oil and gas reserves, which should help investors evaluate the relative value of oil and gas companies. The SEC adopted the current reporting requirements for oil and gas reserves between 1978 and 1982, and since then, there have been significant changes in the oil and gas industry. The proposed amendments are designed to modernize and update the oil and gas disclosure requirements to align them with current practices and changes in technology. The SEC is also proposing to codify Industry Guide 2 in Regulation S-K, with several additions to, and deletions of, current industry guide items. These changes would further harmonize oil and gas disclosures by foreign private issuers with the proposed disclosures for domestic issuers. The full text of the proposal can be found at [www.sec.gov/rules/proposed/2008/33-8935.pdf](http://www.sec.gov/rules/proposed/2008/33-8935.pdf).

### ***Interactive Data to Improve Financial Reporting***

**.12** On May 30, 2008, the SEC proposed amendments to require companies to provide their financial statements to the SEC in interactive data format using XBRL with a proposed three year phase-in schedule. The proposed rules would apply to both domestic and foreign companies using U.S. GAAP and eventually to foreign private issuers using IFRS. The full text of this proposal can be found at [www.sec.gov/rules/proposed/2008/33-8924.pdf](http://www.sec.gov/rules/proposed/2008/33-8924.pdf).

**.13** In addition, on June 10, 2008, the SEC released proposed rules requiring mutual funds to provide risk-return summary information in a format that would improve its usefulness to investors. Mutual funds would be required to provide the risk-return summary section of their prospectuses to the SEC using XBRL. The interactive data would be provided as an exhibit to registration statements. The SEC is also proposing to permit investment companies to submit portfolio holdings information in the SEC's interactive data voluntary

program without being required to submit other financial information. The full text of the proposal can be found at [www.sec.gov/rules/proposed/2008/33-8929.pdf](http://www.sec.gov/rules/proposed/2008/33-8929.pdf).

### ***Foreign Issuer Reporting Enhancements***

.14 On February 29, 2008, the SEC proposed a number of changes to its rules relating to foreign private issuers that are intended to improve the accessibility of the U.S. public capital markets to these issuers, as well as to enhance the information that is available to investors. The SEC has proposed amendments that would enable foreign issuers to test their qualification to use the forms and rules available to foreign private issuers once a year, rather than continuously. The SEC also proposed amendments to change the deadline for annual reports filed by foreign private issuers and to eliminate an option under which foreign private issuers are permitted to omit segment data from their U.S. GAAP financial statements. The SEC is also proposing an amendment to the rule pertaining to going-private transactions to reflect the new termination of reporting and deregistration rules for foreign private issuers. In addition, the SEC is soliciting comments on proposals that would revise the annual report and registration statement forms used by foreign private issuers to improve certain disclosures provided in these forms. The full text of the proposal can be found at [www.sec.gov/rules/proposed/2008/33-8900.pdf](http://www.sec.gov/rules/proposed/2008/33-8900.pdf).

### **SEC Staff Accounting Bulletins**

.15 SEC Staff Accounting Bulletins (SABs) reflect SEC staff views regarding accounting-related disclosure practices. They represent interpretations and policies followed by the Division of Corporation Finance and the Office of the Chief Accountant in administering the disclosure requirements of federal securities laws. There have been two new SABs published since the publication of the previous edition of this alert, as discussed in the following sections.

#### ***SAB No. 110, Topic 14, Share-Based Payment, Staff Views Regarding the "Simplified" Method, as Discussed in SAB No. 107, Topic 14***

.16 On December 21, 2007, the SEC released SAB No. 110. This SAB expresses the views of the staff regarding the use of a "simplified" method, as discussed in SAB No. 107, in developing an estimate of the expected term of "plain vanilla" share options in accordance with Financial Accounting Standards Board (FASB) Statement No. 123 (revised 2004), *Share-Based Payment*. In particular, the staff indicated in SAB No. 107 that it will accept a company's election to use the simplified method, regardless of whether the company has sufficient information to make more refined estimates of expected term. At the time SAB No. 107 was issued, the staff believed that more detailed external information about employee exercise behavior (for example, employee exercise patterns by industry or other categories of companies) would, over time, become readily available to companies. Therefore, the staff stated in SAB No. 107 that it would not expect a company to use the simplified method for share option grants after December 31, 2007. The staff understands that such detailed information about employee exercise behavior may not be widely available by December 31, 2007. Accordingly, the staff will continue to accept, under certain circumstances, the use of the simplified method beyond

December 31, 2007. The full text can be found at [www.sec.gov/interps/account/sab110.htm](http://www.sec.gov/interps/account/sab110.htm).

***SAB No. 109, Topic 5, Miscellaneous Accounting, Staff Views on Written Loan Commitments That Are Accounted For at Fair Value Through Earnings Under GAAP***

.17 On November 5, 2007, the SEC released SAB No. 109. This SAB expresses the views of the staff regarding written loan commitments that are accounted for at fair value through earnings under GAAP. SAB No. 105, *Application of Accounting Principles to Loan Commitments*, provided the views of the staff regarding derivative loan commitments that are accounted for at fair value through earnings pursuant to FASB Statement No. 133, *Accounting for Derivative Instruments and Hedging Activities*. SAB No. 105 stated that in measuring the fair value of a derivative loan commitment, the staff believed it would be inappropriate to incorporate the expected net future cash flows related to the associated servicing of the loan. This SAB supersedes SAB No. 105 and expresses the current view of the staff that, consistent with the guidance in FASB Statement No. 156, *Accounting for Servicing of Financial Assets—an amendment of FASB Statement No. 140*, and FASB Statement No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities—including an amendment of FASB Statement No. 115*, the expected net future cash flows related to the associated servicing of the loan should be included in the measurement of all written loan commitments that are accounted for at fair value through earnings. SAB No. 105 also indicated that the staff believed that internally developed intangible assets (such as customer relationship intangible assets) should not be recorded as part of the fair value of a derivative loan commitment. This SAB retains that staff view and broadens its application to all written loan commitments that are accounted for at fair value through earnings.

.18 The staff expects registrants to apply the views in question 1 of SAB No. 109 on a prospective basis to derivative loan commitments issued or modified in fiscal quarters beginning after December 15, 2007. The full text of this SAB can be found at [www.sec.gov/interps/account/sab109.htm](http://www.sec.gov/interps/account/sab109.htm).

**SEC Office of the Chief Accountant: Staff Letters to Industry**

.19 Readers should be aware of the following staff letters to industry that provide helpful guidance and clarification regarding the SEC staff's interpretation of certain accounting issues and their application under U.S. GAAP.

***Letter From SEC Chief Accountant Concerning the American Securitization Forum's Streamlined Foreclosure and Loss Avoidance Framework for Securitized Subprime Adjustable Rate Mortgage Loans***

.20 This letter, sent January 8, 2008 to Arnold Hanish, chairman of the Committee on Corporate Reporting, and Sam Ranzilla, chairman of the Professional Practice Executive Committee for the AICPA's Center for Audit Quality, addresses whether modifications of Segment 2 subprime adjustable rate mortgage loans that occur pursuant to the American Securitization Forum framework would result in a change in the status of a transferee as a qualifying special-purpose-entity under paragraph 55 of FASB Statement No. 140,

*Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities—a replacement of FASB Statement No. 125.* The full text of the letter can be found at [www.sec.gov/info/accountants/staffletters/hanish010808.pdf](http://www.sec.gov/info/accountants/staffletters/hanish010808.pdf).

***Letter From SEC Chief Accountant Concerning the Use of Employee Stock Appreciation Rights Securities to Value Employee Share-Based Payment Awards Under FASB Statement No. 123R***

.21 This letter, sent October 17, 2007 to Zions Bancorporation, provides guidance concerning if the price obtained for employee stock appreciation rights securities from Zion's auction could be used as an estimate of fair value, in accordance with FASB Statement No. 123(R). The full text of the letter can be accessed at [www.sec.gov/info/accountants/staffletters/zions101707.pdf](http://www.sec.gov/info/accountants/staffletters/zions101707.pdf).

**Recent Guidance Provided by the SEC's Division of Corporation Finance**

***Accounting Guidance to Certain Registrants in the Form of Sample Letters***

.22 In February 2005, the staff of the Division of Corporation Finance publicly posted sample letters sent to certain registrants to promote widespread awareness of certain accounting issues and to provide examples of comments that other registrants should consider as they prepare future SEC filings, as applicable. Since the last edition of this alert, the following two letters that have been posted.

***Sample Letter to Public Companies on Management Discussion and Analysis Disclosure Regarding the Application of FASB Statement No. 157, Fair Value Measurements***

.23 In March 2008, the Division of Corporation Finance sent an illustrative letter to certain public companies identifying a number of fair value disclosure issues they may wish to consider in preparing the Management's Discussion and Analysis (MD&A) sections of their upcoming quarterly reports on Form 10-Q. The sample letter can be found at [www.sec.gov/divisions/corpfin/guidance/fairvaluelettr0308.htm](http://www.sec.gov/divisions/corpfin/guidance/fairvaluelettr0308.htm).

***Sample Letter Sent to Public Companies That Have Identified Investments in Structured Investment Vehicles, Conduits, or Collateralized Debt Obligations***

.24 In December 2007, the Division of Corporation Finance sent an illustrative letter to certain public companies identifying a number of off-balance sheet disclosure issues they may wish to consider in preparing the MD&A sections of their upcoming annual reports on Form 10-K or Form 20-F. The sample letter can be accessed at [www.sec.gov/divisions/corpfin/guidance/cfoffbalancelettr1207.htm](http://www.sec.gov/divisions/corpfin/guidance/cfoffbalancelettr1207.htm).



## ***Additional Comments and Guidance From the Staff of the Division of Corporation Finance***

### ***Staff Comments on Annual Reports Containing Financial Statements Prepared For the First Time on the Basis of IFRS***

**.25** In 2006, the SEC staff reviewed the annual reports of more than 100 foreign private issuers containing financial statements prepared for the first time on the basis of IFRS. The staff comments include the following topics:

- Assertion of compliance with IFRS
- Manner of presentation
- Topical areas, including revenue recognition, intangible assets and goodwill, impairment of long-lived assets, leases, contingent liabilities, and financial instruments

**.26** The SEC staff also recently posted the company responses to their comments, which can be found at [www.sec.gov/divisions/corpfin/ifrs\\_reviews.htm](http://www.sec.gov/divisions/corpfin/ifrs_reviews.htm).

## **SEC Smaller Company Reporting Initiatives**

**.27** As discussed in the "SEC Final Rules" section of this alert, the SEC released a final rule that extends the time period that a nonaccelerated filer would be required to provide the auditor's attestation report on internal control over financial reporting. Since introduction of the requirement for management and auditor attest reports on internal control over financial reporting, the SEC has focused on providing guidance to small businesses and related issues. Some of the more recent initiatives are highlighted in the following.

### ***Sarbanes-Oxley Section 404, A Guide for Small Business***

**.28** On December 4, 2007, the SEC issued the brochure *Sarbanes-Oxley Section 404—A Guide for Small Businesses* in preparation for the upcoming effective date of Section 404 of the Sarbanes-Oxley Act of 2002 for smaller public companies' management assessment of internal control over financial reporting. The brochure is intended to assist smaller companies with their first time assessment under Section 404 of Sarbanes-Oxley by outlining applicable guidance and providing tips for performing management's assessment. The brochure outlines three key steps for small businesses in beginning this evaluation, including the following:

- Identifying financial reporting risks and controls that address those risks
- Assessing whether internal controls work in practice
- Reporting conclusions on overall effectiveness and deficiencies

**.29** There is also guidance included on what types of records small businesses need to keep to ensure they are in compliance with the SEC rules. The brochure can be found at [www.sec.gov/info/smallbus/404guide.shtml](http://www.sec.gov/info/smallbus/404guide.shtml).

### ***Small Reporting Company Compliance and Disclosure Interpretations***

**.30** Since the adoption of the SEC's smaller reporting company rules in Release No. 33-8876, *Smaller Reporting Company Regulatory Relief and*

*Simplification*, on December 19, 2007 (as discussed in the "SEC Final Rules" section of this alert), the Division of Corporation Finance posted Smaller Reporting Company Compliance and Disclosure Interpretations. These interpretations address the following questions:

1. Do all current reporting companies have an opportunity to determine if they qualify for treatment as a smaller reporting company applying the \$75 million public float test as of the end of the second quarter in the fiscal year next ending after December 15, 2007, or the alternative \$50 million annual revenue test for companies that cannot calculate their public float?
2. Could a company with a fiscal year ended December 31, 2007 be both a smaller reporting company and an accelerated filer for 2008, if it was an accelerated filer with respect to filings due in 2007 and had a public float of \$60 million on the last business day of its second fiscal quarter of 2007?
3. Will a company that does not qualify as a smaller reporting company this year be able to qualify as a smaller reporting company if its public float falls below \$75 million at the end of its second fiscal quarter in a future fiscal year?
4. The version of the adopting release on smaller reporting company regulatory relief and simplification currently posted on the SEC's Web site states the SEC added Item 407(g) to Regulation S-K to provide that smaller reporting companies are not "required to provide an Audit Committee [Financial Expert] Report until the first annual report after their initial registration statement is filed with the Commission and becomes effective." An asterisked footnote indicates that the bracketed language was inadvertently omitted from the release when initially published. The initial version of the release indicated that smaller reporting companies were not required to provide an audit committee report under the circumstances described. Are smaller reporting companies required to provide an audit committee report?
5. Do the new disclosure requirements available to smaller reporting companies apply to the Schedule 14A disclosure requirements that refer registrants to specific paragraphs of items in Regulation S-K?
6. Is a smaller reporting company required to describe its policies and procedures for review, approval, or ratification of transactions with related persons as specified by Item 404(b) of Regulation S-K if a schedule or form being used for a filing requires the company to furnish the information required by Item 404(b)?

**.31** The full text of the questions and answers regarding smaller company reporting requirements can be found at [www.sec.gov/info/smallbus/src-cdinterp.htm](http://www.sec.gov/info/smallbus/src-cdinterp.htm).

### ***Changeover to the SEC's Smaller Reporting Company System by Small Business Issuers and Non-Accelerated Filer Companies: A Small Entity Compliance Guide***

**.32** On January 25, 2008, the SEC issued a compliance guide that, according to the guide's introduction, "explains how current small business issuers



and other smaller companies newly eligible to use the SEC's scaled disclosure rules, primarily 'non-accelerated filer' companies, can make the changeover to the new rules with minimal effort and expense." This guide is divided into the following sections:

- Qualifying as a "Smaller Reporting Company"
- Compliance Date Guidance for Current Small Business Issuers
- Transition to Non-SB Forms—Guidance for Current Small Business Issuers
- Guidance for Newly Eligible Smaller Reporting Companies
- Chart of Scaled Item Requirements in Regulation S-K for Smaller Reporting Companies

.33 You can access the complete compliance guide at <http://sec.gov/info/smallbus/secg/smrepcoysguid.pdf>.

### ***Nonaccelerated Filers, Small Business Issuers, and Smaller Reporting Companies***

.34 The SEC has issued several proposals and adopted final rules related to nonaccelerated filers, small business issuers, and smaller reporting companies in the past year. Because some practitioners may find this terminology confusing, this alert outlines the definitions of each and the recent changes to the Securities Exchange Act of 1934 due to the adoption of SEC Release No. 33-8876, which became effective February 4, 2008. In many situations, a company will have to determine whether it is an accelerated filer, nonaccelerated filer, or smaller reporting company. A company's status as an accelerated or nonaccelerated filer may determine such issues as when the company must file its Form 10-K and Form 10-Q and when audit attestation reports under Section 404(b) of Sarbanes-Oxley are required to be filed. A company that qualifies as a smaller reporting company has the choice of using the standard disclosure requirements in Regulation S-K or the scaled disclosure requirements available to smaller reporting companies in Regulation S-K. Although the scaled disclosure requirements are similar to the standard disclosure requirements, there are some differences, including the number of years of financial statements to be provided and the new Article 8 of Regulation S-X for smaller reporting companies.

#### ***Nonaccelerated Filer***

.35 Although the term *nonaccelerated filer* is not defined specifically in the SEC rules, the SEC uses the term to refer to a reporting company that does not meet the Securities Exchange Act of 1934 Rule 12b-2 (17 CFR 240.12b-2) definition of either an *accelerated filer*, *large accelerated filer*, or *smaller reporting company*.

#### ***Small Business Issuer***

.36 Prior to the issuance of the SEC Release No. 33-8876, Rule 12b-2 defined a small business issuer as an entity that meets the following criteria:

- Revenues of less than \$25 million
- U.S. or Canadian issuer

- Not an investment company and not an asset-backed issuer; and if a majority owned subsidiary, the parent corporation is also a small business issuer
- Public float of less than \$25 million

**.37** Currently, the small business issuer definition is being phased out and is expected to be completely removed by March 15, 2009.

### *Smaller Reporting Company*

**.38** The smaller reporting company amendments recently adopted by the SEC, which became effective February 4, 2008, were intended to give smaller companies faster and easier access to capital when they need it or when market conditions are favorable. Specifically, the former *small business issuer* and *nonaccelerated filer* categories, to the extent feasible, were combined to create a new category called *smaller reporting company*. Companies that have less than \$75 million in public float will now qualify as smaller reporting companies. Companies without a calculable public equity float will qualify if their revenues were less than \$50 million in the last fiscal year. The definition of smaller reporting company effectively expands the number of companies that qualify for the scaled disclosure requirements previously available to small business issuers. At the date of this writing, the *Federal Register*<sup>2</sup> provides the following definition of the new term *smaller reporting company*:

- An issuer that is not an investment company, an asset-backed issuer, or a majority-owned subsidiary of a parent that is not a smaller reporting company
- An issuer with public float of less than \$75 million as of the last business day of its most recently completed second fiscal quarter
- An issuer that, in the case of an initial registration statement, had a public float of less than \$75 million as of a date within 30 days of the date of filing the registration statement
- An issuer that, in the case where it does not have any public float, has annual revenues of less than \$50 million during the most recently completed fiscal year for which audited financial statements are available

**.39** Although there is considerable overlap between the definitions of a smaller reporting company and a nonaccelerated filer, the terms are not synonymous. For example, a company that has publicly issued a class of debt securities, but does not have a class of equity securities outstanding would be a nonaccelerated filer even though it may not meet the definition of a smaller reporting company. Many companies that are debt-only issuers, however, are subsidiaries of larger public companies that meet the definition of accelerated filer or large accelerated filer. Therefore, the SEC did not think it was necessary to make a distinction between these two categories for purposes of their latest rule, *Internal Control Over Financial Reporting in Exchange Act Periodic Reports of Non-Accelerated Filers*.

**.40** It is also important to note that whether or not an issuer is a smaller reporting company is determined on an annual basis. It is therefore possible

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<sup>2</sup> See footnote 1 in paragraph .06.

that a company's status as a small reporting company could change from year to year. The SEC recently issued some questions and answers (Q&As) dealing with this particular issue, especially in light of current market conditions. These Q&As can be accessed at [www.sec.gov/info/smallbus/src-cdinterp.htm](http://www.sec.gov/info/smallbus/src-cdinterp.htm). You can also access all of the definitions described in the preceding in the *Federal Register*.<sup>3</sup>

### **Government-Business Forum on Small Business Capital Formation**

.41 The SEC hosts an annual forum that focuses on the capital formation concerns of small businesses. Called the SEC Government-Business Forum on Small Business Capital Formation, this gathering has assembled annually since 1982, as mandated by the Small Business Investment Incentive Act of 1980. A major purpose of the forum is to provide a platform for small businesses to highlight perceived unnecessary impediments to the capital-raising process. The SEC plans to host its 2008 Government-Business Forum on Small Business Capital Formation in the fall of 2008. Further information will be made available as plans are finalized, and can be found at [www.sec.gov/info/smallbus/sbforum.shtml](http://www.sec.gov/info/smallbus/sbforum.shtml).

### **SEC Comment Letters**

.42 The following are a list of common themes found in the latest SEC comment letters:

- Fair value—consideration of illiquidity in credit markets, as well as methodology and assumptions
- Hedge accounting—the shortcut method, as well as having adequate documentation at inception
- Impairments—methods and assumptions used, timing of the charge, and disclosures
- Contingencies—lack of disclosures
- Non-GAAP financial measures—a full income statement eliminating FASB Statement No. 123(R) effects
- Statement of cash flows—materiality and classification
- Business combinations—purchase price allocations
- Segment reporting—number of segments, as well as changes in segments
- Taxes—uncertain tax position disclosures, reasonable possible exposures within the next 12 months
- Purchase price allocations—identification of all intangible assets
- Earnings per share (EPS)—securities that could potentially dilute EPS
- MD&A—more transparent analysis needed
- Asset retirement obligations—details needed concerning why estimates could not be made
- Emerging Issues Task Force (EITF) Issue No. 00-19, "Accounting for Derivative Financial Instruments Indexed to, and Potentially

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<sup>3</sup> See footnote 1 in paragraph .06.

Settled in, a Company's Own Stock"—lack of disclosure of terms and its affect on accounting

- Critical accounting estimates
- Revenue policy disclosures—footnotes not consistent with other parts of the filing
- Pro forma disclosures—forecasts should not be included in pro forma information

.43 Updates and further explanation of current SEC comment letters are discussed in the AICPA's SEC Quarterly Update Webcast Series. Information on all SEC webcasts can be found at [www.sec.gov/news/webcasts.shtml](http://www.sec.gov/news/webcasts.shtml). Further information on these webcasts can be found in the "Resource Central" section near the end of this alert.

## Interactive Data and XBRL Initiative

.44 XBRL is an extensible markup language (XML) used to communicate financial and business data electronically. XBRL is being developed by an international nonprofit consortium with more than 450 member organizations, including accounting firms, software providers, financial intermediaries, academics, and technologists.

.45 XBRL is used to "tag" financial statements so that the information in those statements is machine readable, thereby allowing users to analyze financial information more easily and quickly. To assist with the tagging process, XBRL US has currently developed more than 11,000 financial concepts that essentially represent a dictionary of U.S. GAAP and other financial reporting requirements.

.46 On January 11, 2008, the SEC Advisory Committee on Improvement to Financial Reporting proposed that the SEC adopt a mandatory phase-in of XBRL for a specified time period, starting with the largest 500 domestic public reporting companies. On May 30, 2008, the SEC proposed amendments to require companies to provide their financial statements to the SEC in interactive data format using XBRL with a proposed three year phase-in schedule. The proposed rules would apply to both domestic and foreign companies using U.S. GAAP and then eventually apply to foreign private issuers using IFRS. Be sure to check the SEC's Interactive Data link at [www.sec.gov](http://www.sec.gov) to view the current status of the project.

## SEC Advisory Committee on Improvements to Financial Reporting

.47 In June 2007, the SEC established the Advisory Committee on Improvements to Financial Reporting. This committee held its first meeting on August 2, 2007. The SEC has appointed 17 members representing investors, companies, and other entities within the securities markets. Five other people serve as official observers of the advisory committee, representing FASB, the Public Company Accounting Oversight Board (PCAOB), the U.S. Department of Treasury, IASB, and federal banking regulators. The advisory committee is examining the U.S. financial reporting system and providing recommendations about how to improve its usefulness for investors and reduce the unnecessary complexities for U.S. companies. More specifically, the advisory committee is exploring ways to redesign the financial reporting system to take advantage of interactive data and XBRL for financial reporting.

**.48** The SEC's charter identifies the following more specific areas of inquiry for the advisory committee:

- The current approach to setting financial accounting and reporting standards, including (a) the principles-based versus rules-based standards; (b) the inclusion within standards of exceptions, bright lines, and safe harbors; and (c) the process for providing timely guidance on implementation issues and emerging issues
- The current process of regulating compliance with accounting and reporting standards
- The current system for delivering financial information to investors and accessing that information
- Other environmental factors that drive unnecessary complexity, including the possibility of being second-guessed, the structuring of transactions to achieve an accounting result, and whether there is hesitation by professionals to exercise professional judgment in the absence of detailed rules
- Whether there are current accounting and reporting standards that do not result in useful information to investors or impose costs that outweigh the resulting benefits
- Whether the growing use of international accounting standards has an effect on the relevant issues relating to complexity of U.S. accounting and reporting standards and the usefulness of the U.S. financial reporting system

**.49** The advisory committee has held five meetings so far in 2008 and issued a draft final report in July 2008. In chapter 1 of the draft report, the committee discussed its work in the area of substantive complexity; namely, its proposals related to industry-specific guidance, alternative accounting policies, and approaches regarding the use of bright lines and the mixed attribute model.

**.50** The committee is also welcoming feedback on its work from investors, registrants, auditors, and others. Comments can be submitted and additional information can be found at the committee's Web site: [www.sec.gov/about/offices/oca/acifr.shtml](http://www.sec.gov/about/offices/oca/acifr.shtml).

## The SEC's IFRS "Roadmap"

**.51** The SEC has outlined several initiatives concerning the possible use of IFRS in the United States in the spotlight section of its Web site. This section provides information on the following topics and groups:

- SEC roundtable on IFRS held on August 4, 2008
- SEC roundtable on practical issues surrounding the use of IFRS in the United States in recent years, and the potential expanded use of IFRS in future years
- SEC roundtable on IFRS in the U.S. markets held on December 13, 2007
- Proposed rulemaking and request for public comments
- SEC staff roundtable on IFRS roadmap
- SEC press releases

- Staff review of financial statements prepared in accordance with IFRS
- Speeches and public statements

.52 This information can be accessed at [www.sec.gov/spotlight/ifrsroadmap.htm](http://www.sec.gov/spotlight/ifrsroadmap.htm).

## PCAOB Developments

.53 The summaries that follow are for informational purposes only and should not be relied upon as a substitute for a complete reading of the applicable rule or development. In addition, the information presented in this section does not encompass all of the recent issuances and activities of the PCAOB. See the PCAOB Web site at [www.pcaob.org](http://www.pcaob.org) for complete information.

## PCAOB Approved Rules and Standards

### *Rules for Succeeding to Registration Status of Predecessor Firm*

.54 On July 29, 2008, the PCAOB adopted rules and a corresponding form that govern when a firm would be allowed to succeed to the registration status of a predecessor firm following a merger or other change in the registered firm's legal form.

.55 Under Section 102(a) of Sarbanes-Oxley and PCAOB rules, a public accounting firm must be registered with the PCAOB in order to prepare or issue audit reports for public companies or to play a substantial role in the preparation or furnishing of such audit reports. To become registered, a public accounting firm files an application for registration on PCAOB Form 1, which the PCAOB may approve or disapprove. The rules and form (PCAOB Form 4) adopted in July identify the circumstances in which the registration status of a registered firm may continue in effect even after the firm's legal form has changed or the firm has combined with another firm, without the new legal entity needing to apply for registration on Form 1. The PCAOB release, along with the text of the rules and the instructions to Form 4, can be found at [www.pcaob.org/Rules/Docket\\_020/index.aspx](http://www.pcaob.org/Rules/Docket_020/index.aspx).

### *PCAOB Auditing Standard No. 6, Evaluating Consistency of Financial Statements*

.56 In January 2008, the PCAOB adopted PCAOB Auditing Standard No. 6, which will become effective 60 days after SEC approval. This standard and its related amendments update the auditor's responsibilities to evaluate and report on the consistency of a company's financial statements and align the auditor's responsibilities with FASB Statement No. 154, *Accounting Changes and Error Corrections—a replacement of APB Opinion No. 20 and FASB Statement No. 3*. This standard also improves the auditor reporting requirements by requiring the auditor's report to recognize a company's correction of a material misstatement, regardless of whether it involves the application of an accounting principle. This standard also clarifies that the auditor's report should indicate whether an adjustment to previously issued financial statements results from a change in accounting principle or the correction of a misstatement.

.57 The standard clarifies that the periods covered in the auditor's evaluation of consistency depend on the periods covered by the auditor's report on the financial statements. When the auditor reports only on the current period,

he or she should evaluate whether the current period financial statements are consistent with those of the preceding period. When the auditor reports on two or more periods, he or she should evaluate consistency between such periods and the consistency of such periods with the period prior thereto if such prior period is presented within the financial statements being reported upon.<sup>4</sup>

**.58** The standard also states that the auditor should evaluate and report on a change in accounting estimate affected by a change in accounting principle like other changes in accounting principle. In addition, the auditor should recognize a change in the reporting entity by including an explanatory paragraph in the auditor's report, unless the change in reporting entity results from a transaction or event. A change in reporting entity that results from a transaction or event, such as the creation, cessation, or complete or partial purchase or disposition of a subsidiary or other business unit, does not require recognition in the auditor's report.

**.59** The auditor should evaluate a change in accounting principle to determine whether

- the newly adopted accounting principle is GAAP.
- the method of accounting for the effect of the change is in conformity with GAAP.
- the disclosures related to the accounting change are adequate.
- the company has justified that the alternative accounting principle is preferable.

**.60** The PCAOB also clarified that a change in classification in previously issued financial statements does not require recognition in the auditor's report, unless the change represents the correction of a material misstatements or a change in accounting principle.

**.61** In the same release, the PCAOB adopted several amendments to its interim standards relating to standards and interpretations of AU section 328, *Auditing Fair Value Measurements and Disclosures*; AU section 400, *The First, Second, and Third Standards of Reporting*; AU section 508, *Reports on Audited Financial Statements*; and AU section 561, *Subsequent Discovery of Facts Existing at the Date of the Auditor's Report* (AICPA, *PCAOB Standards and Related Rules*, PCAOB Standards, As Amended).

**.62** In these amendments, the PCAOB removed the GAAP hierarchy from its standards as it believes the hierarchy is more appropriately located in the accounting standards. These amendments do not change the principles in AU section 411, *The Meaning of Present Fairly in Conformity With Generally Accepted Accounting Principles* (AICPA, *PCAOB Standards and Related Rules*, PCAOB Standards, As Amended), for evaluating fair presentation of the financial statements in conformity with GAAP. FASB has issued FASB Statement No. 162, *The Hierarchy of Generally Accepted Accounting Principles*, which has an effective date of 60 days following the SEC's approval of the PCAOB amendments to AU section 411. The AICPA Auditing Standards Board (ASB) will

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<sup>4</sup> For example, assume that a company presents comparative financial statements covering three years and has a change in auditors. In the first year in which the successor auditor reports, the successor auditor evaluates consistency between the year on which he or she reports and the immediately preceding year. In the second year in which the successor auditor reports, the successor auditor would evaluate the consistency between the two years on which he or she reports and between those years and the earliest year presented.



coordinate the provisions and effective date of its associated exposure draft with the effective date of the FASB statement.

**.63** For more information on the status of this adopted standard and its associated amendments, please visit [www.pcaob.org](http://www.pcaob.org).

### ***Rules on Periodic Reporting by Registered Accounting Firms***

**.64** On June 10, 2008, the PCAOB adopted rules for annual and special reporting of information and events by accounting firms that are registered with the PCAOB. The reporting framework includes two types of reporting obligations. First, each registered firm must annually provide basic information about the firm and the firm's issuer-related practice during the most recent 12 month period. Information to be reported annually includes, among other things, information about audit reports issued by the firm during the year, certain disciplinary history information about persons who have joined the firm, and information about fees billed to issuer audit clients, in various categories of services, as a percentage of the firm's total fees billed.

**.65** Second, the rules and forms adopted by the PCAOB identify certain events that, if they occur with respect to a registered firm, must be reported by the firm within 30 days. These reportable events range from such things as a change in the firm's name or contact information to the institution of certain types of legal, administrative, or disciplinary proceedings against a firm or certain categories of individuals.

**.66** The PCAOB will make each firm's annual and special reports available to the public on the PCAOB's Web site, subject to exceptions for information that satisfies specified criteria for confidential treatment.

**.67** The PCAOB has submitted the rules to the SEC for approval. The rules will take effect 60 days after SEC approval. Beginning then, firms will be subject to the special reporting obligations, with the earliest potential special reporting deadline for any firm being 90 days after SEC approval. For all firms, the first annual report will be due by June 30, 2009, for the 12 month period ending March 31, 2009. The full text of the rule, as well as copies of the new reporting forms, can be found at [www.pcaobus.org/News\\_and\\_Events/News/2008/06-10.aspx](http://www.pcaobus.org/News_and_Events/News/2008/06-10.aspx).

## **PCAOB Proposed Rules and Standards**

### ***Engagement Quality Review***

**.68** On February 26, 2008, the PCAOB proposed a new auditing standard that would supersede its interim concurring partner review requirement, and a conforming amendment to the PCAOB's interim quality control standards. The proposed standard would apply to all engagements performed in accordance with the standards of the PCAOB.

**.69** In addition to requiring certain specified procedures, the proposed standard requires the engagement quality reviewer to assess whether there are areas within the engagement that pose a higher risk that the engagement team failed (1) to obtain sufficient competent evidence or (2) to reach an appropriate conclusion. In such areas, an engagement quality reviewer should evaluate whether the engagement team responded appropriately to the assessed risks, the judgments made were reasonable, and the results of the procedures performed support the engagement team's overall conclusions.



.70 In addition, the proposed standard includes a new requirement that the engagement quality reviewer must satisfy before providing concurring approval of issuance. Under the proposed standard, the reviewer must not provide concurring approval of issuance if he or she knows, or should know based upon the requirements of the standard, that the engagement team failed to obtain sufficient competent evidence, the engagement team's overall conclusion or report is inappropriate, or the firm is not independent of its client. Concurring approval of issuance would be required before the firm could grant the client permission to use the engagement report (or communicate a conclusion to a client if no report is issued). The full text of the proposal can be found at [www.pcaob.org/Rules/Docket\\_025/2008-02-26\\_Release\\_No\\_2008-002.pdf](http://www.pcaob.org/Rules/Docket_025/2008-02-26_Release_No_2008-002.pdf).

### **PCAOB Standing Advisory Group**

.71 The PCAOB Standing Advisory Group (SAG) is currently a 36 person panel representing the auditing profession, public companies, investors, and others charged with advising the PCAOB on the establishment of auditing and related professional practice standards. The SAG was established in April 2004 and meets approximately three times a year. Six organizations have been granted observer status at these meetings and include the following:

- FASB
- U.S. Government Accountability Office (GAO)
- International Auditing and Assurance Standards Board (IAASB)
- SEC
- U.S. Department of Labor
- AICPA ASB

.72 The SAG meetings can be heard via webcast, and briefing papers can be accessed at [www.pcaob.org/Standards/Standing\\_Advisory\\_Group/index.aspx](http://www.pcaob.org/Standards/Standing_Advisory_Group/index.aspx). The following are summaries of the most recent meetings.

#### ***February 2008 SAG Meeting***

.73 On February 27, 2008, the SAG met to discuss the SEC's proposal relating to judgments made by financial statement preparers and auditors, accounting firms and auditors' responsibility to supervise, and global quality control practices. Additional details on each topic are noted in the following list:

- The SAG panel discussed the proposal of the SEC's Advisory Committee on Improvements to Financial Reporting relating to accounting and auditing judgments. The panel discussed the objectives and elements of the proposal, as well as whether the SEC's adoption of such a framework would have an effect on public companies' audits and, if so, what effect.
- Accounting firms and auditors' responsibility to supervise was also a focus of the group. SAG members were asked to consider whether the current auditing, quality control, and related professional practice standards include sufficient direction concerning the supervision of audit work.
- The SAG also held a panel discussion on global quality control practices. A panel of representatives from global audit networks discussed their quality control practices, including practices in the audits of financial statements prepared in accordance with

IFRS. The main purpose of the panel was to foster discussion about global audit networks and their quality control practices to help determine what changes might be needed to be made to SEC Practice Section (SECPS) 1000.45, *Appendix K—SECPS Member Firms With Foreign Associated Firms That Audit SEC Registrants (AICPA, PCAOB Standards and Related Rules)*, or other quality control standards.

### October 2007 SAG Meeting

.74 On October 18, 2007, the SAG met to discuss proposed standards setting activities and audit implications of IFRS in U.S. SEC filings. The SAG also heard a working paper presentation from the Office of Research and Analysis. A summary of the meeting is included in the following:

- The Office of the Chief Auditor (OCA) presented the PCAOB's standards setting priorities. Topics include internal control, independence and principles of reporting, engagement quality review, risk assessment (which includes fraud risk assessment), fair value, the auditor's use of specialists, related parties, confirmations, and an action plan for review of the PCAOB interim standards. The OCA noted that some of these topics will result in either proposed or final adopted standards or rules in the next 12 months.
- The SAG discussed both the SEC concept release and proposal related to the acceptance of financial statements prepared in accordance with IFRS.
- The working paper discussed was *Changes in Market Responses to Financial Statement Restatement Announcements in the Sarbanes-Oxley Era*. Specifically, the working paper addressed whether market responses have been different since the enactment of Sarbanes-Oxley, and if so, what were the changes.

.75 The next SAG meeting will be held on October 22–23, 2008. Updated information related to this meeting, including an agenda, will be available at [www.pcaob.org/Standards/Standing\\_Advisory\\_Group/index.aspx](http://www.pcaob.org/Standards/Standing_Advisory_Group/index.aspx).

### PCAOB Staff Audit Practice Alert on Fair Value

.76 On December 10, 2007, the PCAOB issued Staff Audit Practice Alert No. 2, *Matters Related to Auditing Fair Value Measurements of Financial Instruments and the Use of Specialists* (AICPA, *PCAOB Standards and Related Rules*, PCAOB Staff Guidance, sec. 400 par. .02). The purpose of this practice alert is to remind auditors of their responsibilities for auditing fair value measurements of financial instruments and the use of the work of specialists under the existing standards of the PCAOB. The practice alert focuses on specific matters that are likely to increase audit risk related to the fair value of financial instruments in a rapidly changing economic environment. Although this practice alert focuses on fair value in general, it also draws the auditor's attention to certain areas of the new fair value accounting standard, FASB Statement No. 157. It also addresses the auditor's responsibilities when using the work of specialists. The practice alert is divided into four main sections:

- Auditing fair value measurements
- Classification within the fair value hierarchy under FASB Statement No. 157

- Using the work of specialists
- Use of a pricing service

.77 The full text of the practice alert can be accessed at [www.pcaob.org/Standards/Staff\\_Questions\\_and\\_Answers/2007/12-10\\_APA\\_2.pdf](http://www.pcaob.org/Standards/Staff_Questions_and_Answers/2007/12-10_APA_2.pdf).

## PCAOB Inspections

### *Inspection Frequency Rule*

.78 Section 404 of Sarbanes-Oxley requires the PCAOB to conduct inspections of registered public accounting firms. In the inspections, the PCAOB assesses compliance with Sarbanes-Oxley, the rules of the PCAOB, and the rules of the SEC and professional standards in connection with the firm's performance of audits, issuance of audit reports, and related matters involving issuers. Sarbanes-Oxley requires the PCAOB to conduct those inspections annually for firms that provide audit reports for more than 100 issuers and at least triennially for firms that provide audit reports for fewer than 100 issuers.

.79 The PCAOB makes portions of the inspection reports public, and they can be accessed at [www.pcaob.org/Inspections/Public\\_Reports/index.aspx](http://www.pcaob.org/Inspections/Public_Reports/index.aspx).

### *Guidance Regarding Implementation of PCAOB Rule 4012*

.80 On December 5, 2007, the PCAOB requested public comment on the proposed policy statement *Guidance Regarding Implementation of PCAOB Rule 4012*. Rule 4012, *Inspections of Foreign Registered Public Accounting Firms*, permits the PCAOB to rely on independent audit oversight entities located in the home countries of registered non-U.S. audit firms in connection with required inspections and identifies five broad principles that guide the PCAOB in making a reliance determination. Due to the evolution of auditor oversight throughout the world, the PCAOB is proposing to issue this policy statement, which would permit the PCAOB to place full reliance on the inspection programs of non-U.S. auditor oversight entities. The full text of the release can be found at [www.pcaob.org/Inspections/Other/2007/12-05\\_Release\\_2007-011.pdf](http://www.pcaob.org/Inspections/Other/2007/12-05_Release_2007-011.pdf). In addition, all comments received to date regarding this release can be accessed at [www.pcaob.org/Inspections/Other/2008/PCAOB\\_Rule\\_Comments.pdf](http://www.pcaob.org/Inspections/Other/2008/PCAOB_Rule_Comments.pdf).

### *Report on the PCAOB's 2004, 2005, and 2006 Inspections of Domestic Triennially Inspected Firms*

.81 On October 27, 2007, the PCAOB issued a report discussing observations identified in the course of the PCAOB's 2004, 2005, and 2006 inspections of registered U.S. firms that were subject to triennial PCAOB inspections. The report discusses areas of the audit where PCAOB inspectors have observed significant or frequent deficiencies in the first PCAOB inspections of triennial firms. The major areas where deficiencies were identified include the following:

- *Revenue*. Firms were found to have not performed any or adequate substantive procedures to test the existence, completeness, and valuation of revenue. They also failed to review representative contracts or appropriately evaluate the specific terms and provisions included in significant contracts. In addition, the PCAOB found issues with firms not testing whether revenue was recognized in the appropriate period. In some instances, the PCAOB also found firms relying on management representations with

regards to revenue recognition without obtaining corroboration of those representations. Some firms also failed to address specific accounting pronouncements related to revenue recognition, including EITF Issue No. 99-19, "Reporting Revenue Gross as a Principal versus Net as an Agent"; FASB Statement No. 45, *Accounting for Franchise Fee Revenue*; and Statement of Position 97-2, *Software Revenue Recognition* (AICPA, *Technical Practice Aids*, ACC sec. 10,700).

- *Related party transactions.* Inspection teams have observed deficiencies related to firms' failures to identify and address the lack of disclosure of related party transactions. They have also identified deficiencies relating to the effectiveness of firms' testing of the nature, economic substance, and business purpose of transactions with related parties.
- *Equity transactions.* The most common deficiencies in this area relate to the failure of firms to evaluate whether issuer clients had appropriately determined the fair values assigned to equity-based transactions.
- *Business combinations and impairment of assets.* Inspection teams encountered numerous instances of firms' failure to perform adequate audit procedures to test the allocation of the purchase price and the reasonableness of the estimated fair values assigned to the assets acquired. They also identified instances where firms failed to challenge issuers' incorrect accounting, and performed inadequate procedures with regards to goodwill and other long-lived assets.
- *Going concern considerations.* The teams observed that some firms failed to perform, or perform adequately, audit procedures related to the entity's ability to continue as a going concern. Some of these firms failed to identify or evaluate the significance of conditions that indicated an entity may not have been able to continue as a going concern, such as cumulative losses since inception, accumulated capital deficits, and negative working capital. Other firms identified conditions that could affect the issuer's ability to continue as a going concern, but failed to evaluate management's plans to mitigate the effects of such conditions, or failed to obtain information about the likelihood that such plans could be implemented effectively. In addition, some firms failed to evaluate the adequacy of an entity's disclosure of the going concern conditions and management's plans to mitigate them.
- *Loans and accounts receivable (including allowance accounts).* In some cases, inspection teams noted that firms failed to circulate confirmation requests or obtain other evidence to assess the existence of accounts receivable. In other instances, firms circulated confirmation requests, but failed to perform sufficient, alternative procedures to address nonresponses or responses with exceptions. There were also instances where firms failed to perform sufficient procedures to conclude whether the allowance for loan losses was reasonable.
- *Service organizations.* The inspection teams observed deficiencies related to firms' reliance on controls over the information provided

by service organizations as well as firms' use of information produced or processed by service organizations.

- *Use of other auditors.* Deficiencies in this area included firms reporting on the financial statements as principal auditor when their participation was not sufficient to enable them to serve in that capacity, as well as insufficient planning, supervision, review, and addressing of significant audit areas by the firms when other auditors were used as assistants.
- *Using the work of specialists.* Inspectors found instances where the firms failed to perform the necessary procedures with regard to specialists. These include (a) the failure to evaluate the relationship of the specialist to the issuer in circumstances where the specialist has other business relationships with the issuer or otherwise has a relationship that may have a bearing on the specialist's objectivity; (b) the failure to obtain an understanding of the specialist's methods and assumptions; or (c) the failure to make appropriate tests of the data the issuer provided to the specialist.
- *Independence.* Inspection teams found several ways in which firms have failed to comply with the SEC and PCAOB independence requirements. There were many instances where a firm's system of quality control did not appear to provide sufficient assurances that the firm would make or document all required independence communications to its issuer audit client's audit committee. In addition, the PCAOB found that some agreements between an auditor and its issuer client provided certain types of limits on the auditor's potential liability, which impair auditor independence under the SEC rules.
- *Concurring partner review.* Some firms failed to ensure their concurring partner reviews were effective.

.82 The full report can be accessed at [www.pcaob.org/Inspections/Other/2007/10-22\\_4010\\_Report.pdf](http://www.pcaob.org/Inspections/Other/2007/10-22_4010_Report.pdf).

## PCAOB Accounting Support Fee and Funding Process

.83 On April 28, 2008, the PCAOB updated its frequently asked questions (FAQs) regarding the accounting support fee and funding process. The statements contained in these FAQs are not rules of the PCAOB, nor have they been approved by the PCAOB. The entire release can be accessed at [www.pcaob.org/Support\\_Fees/SupportFeeFAQ.pdf](http://www.pcaob.org/Support_Fees/SupportFeeFAQ.pdf).

.84 The PCAOB also publishes a list of issuers with no outstanding or past due share of the accounting support fee. This list can be found at [www.pcaob.org/Support\\_Fees/Issuers\\_Paid.pdf](http://www.pcaob.org/Support_Fees/Issuers_Paid.pdf).

## PCAOB Independence Guidance

### *Ethics and Independence Rule 3526*

.85 On April 22, 2008, the PCAOB adopted Ethics and Independence Rule 3526, *Communication with Audit Committees Concerning Independence*, which, if approved by the SEC, would supersede the PCAOB's interim independence requirement, Independence Standards Board Standard No. 1, *Independence Discussions with Audit Committees*, and two related interpretations. This rule

requires a registered public accounting firm, before accepting an initial engagement, to describe in writing to the audit committee all relationships between the firm or any of its affiliates and the issuer that may reasonably be thought to bear on the firm's independence. The PCAOB also adopted an amendment to Rule 3523, *Tax Services for Persons in Financial Oversight Reporting Roles* (AICPA, *PCAOB Standards and Related Rules*, Rules of the Board, "Rules"), to exclude from the scope of the rule tax services provided during the portion of the audit period that precedes the beginning of the professional engagement period. The full text of the rule can be found at [www.pcaob.org/Rules/Docket\\_017/2008-04-22\\_Release\\_2008-003.pdf](http://www.pcaob.org/Rules/Docket_017/2008-04-22_Release_2008-003.pdf).

## PCAOB Small Business Initiatives

### *Forum on Auditing in the Small Business Environment*

**.86** The series of forums on auditing in the small business environment is a program for registered accounting firms and public companies in the small business community to learn more about the work of the PCAOB, specifically the PCAOB inspections process and the effect of new auditing standards. The PCAOB began holding small business forums in 2004. Invited participants are auditors from smaller registered public accounting firms and directors and financial executives of smaller public companies. The program is limited to those groups in the small business environment that are most directly affected by the PCAOB's oversight responsibilities. The goal of such a format is to ensure that there is ample opportunity for discussion of PCAOB issues facing small business communities between representatives of this sector and PCAOB members and its staff.

**.87** The 2008 agenda will include a discussion of practical quality control policies and procedures, and evolving accounting and auditing issues. The discussions will also address the application of certain auditing standards and observations from the PCAOB's disciplinary orders. In addition, the 2008 agenda will include a discussion of the implementation of PCAOB Auditing Standard No. 5, *An Audit of Internal Control over Financial Reporting That is Integrated with an Audit of Financial Statements* (AICPA, *PCAOB Standards and Related Rules*, Rules of the Board, "Standards"). The next forum will be held in Chicago September 30–October 1, 2008.

### *Staff Guidance—Auditing Internal Control Over Financial Reporting for Smaller Public Companies*

**.88** On October 17, 2007, the PCAOB published for public comment staff guidance on internal control over financial reporting in smaller public companies. This guidance is a key component in the PCAOB's effort to support the successful implementation of PCAOB Auditing Standard No. 5. The guidance demonstrates how auditors can apply the principles described in the standard and provides examples of approaches to particular audit issues that might arise in audits of smaller, less complex companies. Topics discussed in the staff guidance include the following:

- Entity-level controls
- Risk of management override
- Segregation of duties and alternative controls
- IT controls



- Financial reporting competencies
- Testing controls with less formal documentation

**.89** The full text of the preliminary staff views can be found at [www.pcaob.org/Standards/Standards\\_and\\_Related\\_Rules/AS5/Guidance.pdf](http://www.pcaob.org/Standards/Standards_and_Related_Rules/AS5/Guidance.pdf). The CAQ also commented on the proposals and proposed some changes. For a copy of the CAQ comment letter, see <http://thecaq.org/newsroom/pdfs/CAQ%20Comment%20Letter%20-%20PCAOB%20Small%20Audit%20Guidance.pdf>.

## Other PCAOB Initiatives

### *Implementing PCAOB Auditing Standard No. 5*

**.90** On March 31, 2008, a PCAOB board member gave a speech on the implementation of PCAOB Auditing Standard No. 5. This speech reiterated the four basic objectives of the standard, as follows:

- Focus auditors on controls that present the greatest risk that a material misstatement will not be prevented or detected
- Eliminate unnecessary procedures
- Make the audit scalable to the size and the complexity of the company
- Rewrite the standard to be shorter and more principles based

**.91** The speech also emphasized the critical role that the 2008 inspection process will play in ensuring that PCAOB Auditing Standard No. 5 is being applied as intended by the standard. The inspection process is critical in determining how PCAOB Auditing Standard No. 5 translates into practice. In the speech, the board member stressed he does not want the inspection process to communicate the wrong message, and inspections leadership will therefore be implementing a sophisticated internal controls process to monitor concerns about internal control over financial reporting audits and to make sure that any comments issued to the firms are clear and consistent with the objectives of PCAOB Auditing Standard No. 5. In addition, the PCAOB board member reminded the audience that part of the switch from PCAOB Auditing Standard No. 2, *An Audit of Internal Control Over Financial Reporting Performed in Conjunction With an Audit of Financial Statements*, to PCAOB Auditing Standard No. 5 was due to concern about restoring the balance between costs and benefits. Therefore, if auditors don't take advantage of the opportunities for efficiency and the risk-focus in the new standard, the result is likely to be "needless cost and frustration for both companies and auditors." The full text of the speech can be accessed at [www.pcaob.org/News\\_and\\_Events/Events/2008/Speech/03-31\\_Goelzer.aspx](http://www.pcaob.org/News_and_Events/Events/2008/Speech/03-31_Goelzer.aspx).

### *SEC Speech at the AICPA National Conference on Current SEC and PCAOB Developments*

**.92** The chief auditor and director of professional standards of the PCAOB gave a speech at the annual AICPA conference on current SEC and PCAOB developments on December 10, 2007. The speech opened with a remark on the "death" of PCAOB Auditing Standard No. 2, and adoption of PCAOB Auditing Standard No. 5, as well as the anticipated benefits of the new standard. In addition, the speech addressed the globalization of professional standards and noted that in the coming year, the PCAOB will consider and seek additional views on whether there is a need for a set of globally accepted auditing standards, how the PCAOB should interact with other auditing standards setters, and how this

should fit within the PCAOB's other priorities. He pointed out that as a result of the standards setting process, there will likely be differences between the standards set by the PCAOB and the equivalent International Standards on Auditing (ISAs) set by the IAASB.

**.93** The speech noted the importance of inspections and enforcement activities pointing out that the inspections of the implementation of PCAOB Auditing Standard No. 2 gave the PCAOB valuable information in the development of PCAOB Auditing Standard No. 5. During 2007, the PCAOB published three general reports concerning the procedures, findings, and results of its various inspections. The first report, issued in January 2007, contains observations about auditors' implementation of auditing standards related to the auditor's responsibility with regard to the consideration of fraud. The second report, issued in April 2007, contains observations on the second year implementation of PCAOB Auditing Standard No. 2. The final report, issued in October 2007, discusses observations identified in the first three years of inspecting U.S. registered public accounting firms that audit 100 or fewer issuers. The full text of the speech can be accessed at [www.pcaob.org/News\\_and\\_Events/Events/2007/Speech/12-10\\_Ray.aspx](http://www.pcaob.org/News_and_Events/Events/2007/Speech/12-10_Ray.aspx).

## Other Related Developments and Resources

### Committee for Sponsoring Organizations of the Treadway Commission Developments

**.94** In June 2008, the Committee for Sponsoring Organizations of the Treadway Commission released a draft of its exposure document *Guidance on Monitoring Internal Control Systems*. The guidance is designed to help organizations monitor the quality of their internal control systems. The comment period for the exposure draft ended August 15, 2008. Further information can be found at [www.coso.org/guidance.htm](http://www.coso.org/guidance.htm).

### CAQ Developments and Alert Highlights

**.95** The following are developments of the CAQ since the last edition of this alert. Additional information about the CAQ can be found in the "Resource Central" section of this alert.

### U.S. Department of Treasury Study Analyzing the Increase in Public Company Restatements Between 1997 and 2006

**.96** The U.S. Department of Treasury commissioned a study in October 2007 called *The Changing Nature and Consequences of Public Company Financial Restatements*, which was released April 9, 2008. The study examined the characteristics and consequences of financial statement restatements from violations of U.S. GAAP from 1997 to 2006. The study analyzed 6,633 restatements of financial results announced during the study period.

**.97** In October 2007, the Treasury issued a press release announcing that numerous studies have pointed to a significant increase in the number of financial restatements during the past few years. Many of these studies attribute the growing number of misstatements to increased management and auditor focus on accurate financial reporting due to the mandates imposed by Sarbanes-Oxley, as well as greater enforcement and review by regulators. Some studies suggest that although some restatements are material, immaterial



restatements might pose significant and unwarranted challenges to the capital markets.

**.98** As a result, the Treasury commissioned a study to examine the factors triggering public company financial restatements, describe public company financial restatements, analyze the effect of public company financial restatements on investors and capital markets, and evaluate the significance of public company financial restatements.

**.99** The following are some highlights of the study findings:

- Restatements during the study period grew nearly 18 fold from 90 in 1997 to 1,577 in 2006. The increase in restatements during this period was driven primarily by companies that do not trade on the major stock exchanges (New York Stock Exchange, American Stock Exchange, and NASDAQ). Nonexchange-listed companies accounted for only 23 percent of all restatements in 1997, but this figure increased to 62 percent by 2006.
- Restatement frequencies began to accelerate in 2001 due, in part, to the economic downturn at that time.
- On average, market reaction to restatements is negative throughout the study period, but, beginning in 2001, the magnitude of market reactions declined notably, which coincided with the number of restatements from 2001 to 2006.
- In certain years during the study period, restatement frequencies and market reactions were associated with several disparate factors, including overall market returns and volatility, regulatory activities, and changes in the mix of underlying accounting issues. With regard to shifts in underlying accounting issues, the study found that
  - restatements related to fraud and those affecting revenue tended to have more negative market reactions. However, the percentages of both fraud and revenue restatements declined throughout the decade. Fraud is a factor in 29 percent of all 1997 restatements, but only 2 percent of 2006 restatements. The proportion of revenue restatements also decreased from 41 percent in 1997 to 11 percent in 2006.
  - restatements related to accounting for nonoperating expenses, nonrecurring events, and reclassifications typically did not have discernibly negative market reactions. Together, these groups represent about 24 percent of all 1997 restatements, increasing to nearly half of all restatements by the end of the study period.
- During the study period, the average restating company increased in size, but remained similar to a comparison group of nonrestating companies. Companies of differing sizes tended to restate for different accounting issues, and several of the distinctions were consistent with expected variations in the activities of larger versus smaller companies.

- Restating companies were typically unprofitable even before the restatement. In the year prior to announcing a restatement, more than half of the restating companies reported a net loss.

.100 For a copy of the full report, see [www.treas.gov/press/releases/reports/FinancialRestatements\\_1997\\_2006.pdf](http://www.treas.gov/press/releases/reports/FinancialRestatements_1997_2006.pdf).

### ***CAQ Briefing to Discuss Treasury Advisory Committee's Recommendations for the Auditing Profession***

.101 The Treasury established the Advisory Committee on the Auditing Profession in 2007 to examine the sustainability of a strong and vibrant audit profession. The advisory committee has been holding public meetings since October 2007. More information on the advisory committee, as well as meeting agendas and minutes, can be found at [www.treas.gov/offices/domestic-finance/acap/](http://www.treas.gov/offices/domestic-finance/acap/).

.102 On May 21, 2008, the CAQ presented a webinar to discuss its recommendations for the auditing profession. During the 90 minute live Web conference, speakers

- provided an overview and analysis of the Treasury advisory committee's recommendations in the areas of human capital, firm structure and finances, and concentration and competition.
- explained how citizens can make their views known by submitting a comment to the committee.
- answered questions from the participants.

.103 Comments were due back to the committee by June 13, 2008. You can view the comments received at <http://comments.treas.gov/index.cfm?FuseAction=Home.ViewList>.

### ***Highlights of the GAO's Updated Study on Consolidation and Competition of Public Accounting Firms***

.104 In January 2008, the GAO issued a report entitled Audits of Public Companies Continued Concentration in Audit Market for Large Public Companies Does Not Call for Immediate Action. This report is an update of the GAO's initial report on the consolidation of public accounting firms, which was a study mandated by Congress under Section 701 of Sarbanes-Oxley. The GAO updated its study in its latest issuance of this report as part of a continued effort to assist Congress in reviewing concentration in the market for public company audits.

.105 The GAO concluded in its updated report that in light of limited evidence that the currently concentrated market for large public company audits has created significant adverse effects and the general lack of any proposals that were clearly seen as effective in addressing the risks of concentration or challenges facing smaller firms without serious drawbacks, they found no compelling need to take action. As a result, the report does not contain any recommendations.

.106 The full GAO report can be accessed at [www.gao.gov/new.items/d08163.pdf](http://www.gao.gov/new.items/d08163.pdf).

## Resource Central

.107 The following are various resources that practitioners may find beneficial.

### Publications

.108 Practitioners may find the following publications useful with respect to accounting and auditing of public companies. Choose the format best for you—online, print, or CD ROM.

- *AICPA Audit Risk Alert—2008* (product no. 022339kk [paperback], WGE-XX [online], or DGE-XX [CD ROM])
- *Audit Risk Alert Independence and Ethics—2008* (product no. 022479kk [paperback], WIA-XX [online], or DIA-XX [CD ROM])
- *Audit and Accounting Manual* (2008) (product no. 005138kk [paperback], WAM-XX [online], or AAM-XX [loose leaf])
- *Accounting Trends & Techniques, 62nd Edition* (product no. 009900kk [paperback] or WAT-XX [online])
- *PCAOB Standards and Related Rules* (product no. 057208kk [paperback] or WPC-BX [online])

.109 Additional resources for accountants in business and industry are the *Financial Reporting Alert* series, designed to be used by members of an entity's financial management and audit committee to identify and understand current accounting and regulatory developments affecting the entity's financial reporting.

- *Financial Reporting Alert Current Accounting Issues and Risks—2008* (product no. 029208kk)
- *Financial Reporting Alert Not-for-Profit Organizations—Accounting Issues and Risks—2008* (product no. 029207kk)
- *Financial Reporting Alert FASB Codification Developments—2008* (product no. 029209kk)

## AICPA reSOURCE: Accounting and Auditing Literature

.110 The AICPA has created your core accounting and auditing library online. AICPA reSOURCE is now customizable to suit your preferences or your firm's needs. Or, you can sign up for access to the entire library. Get access—anytime, anywhere—to the AICPA's latest *Professional Standards*, *Technical Practice Aids*, *Audit and Accounting Guides* (more than 20), *Audit Risk Alerts* (more than 15), and *Accounting Trends & Techniques*. To subscribe to this essential online service for accounting professionals, go to [www.cpa2biz.com](http://www.cpa2biz.com).

## Continuing Professional Education

.111 The AICPA offers a number of continuing professional education (CPE) courses that are valuable to CPAs working in public practice and industry, including the following:

- *AICPA's Annual Accounting and Auditing Update Workshop* (2008–2009 Edition) (product no. 736184kk [text] or 187192kk [DVD]). Whether you are in industry or public practice, this course

keeps you current and informed and shows you how to apply the most recent standards.

- *SEC Reporting* (product no. 736775kk [text] or 186756kk [DVD]). Confidently comply with the latest SEC reporting requirements with this comprehensive course. It clarifies new, difficult, and important reporting and disclosure requirements while giving you examples and tips for ensuring compliance.
- *Annual Public Company Update: SEC, PCAOB, and AICPA Developments* (product no. 731884kk [text]). Identify recent SEC and PCAOB rules and guidance as well as other developments that affect filings or engagements for this reporting cycle.
- *International Versus U.S. Accounting: What in the World is the Difference?* (product no. 731666 [text]). With the fast pace of the convergence project, understanding the differences between IFRS and U.S. GAAP is becoming more important for businesses of all sizes. This course outlines the major differences between IFRS and U.S. GAAP.
- *The International Financial Reporting Standards: An Overview* (product no. 157220 [online] or 739750HS [DVD]). This course captures a live presentation on IFRS given to the AICPA Board of Directors.

.112 Visit [www.cpa2biz.com](http://www.cpa2biz.com) for a complete list of CPE courses.

### Online CPE

.113 AICPA CPExpress (formerly AICPA InfoBytes), offered exclusively through CPA2Biz.com, is AICPA's flagship online learning product. AICPA CPExpress now offers a free trial subscription to the entire product for up to 30 days. AICPA members pay \$149 for a new subscription and \$119 for the annual renewal. Nonmembers pay \$369 for each. Divided into 1-credit and 2-credit courses that are available 24 hours a day, 7 days a week, AICPA CPExpress offers hundreds of hours of learning in a wide variety of topics. Some courses currently available related to SEC and PCAOB developments are the following:

- *Current SEC and PCAOB Developments—Second Quarter 2008* (course ID kjj)
- *SEC Reporting: The SEC and the Laws It Administers* (course ID fge)
- *SEC Reporting: The Key Rule* (course ID fgc)
- *2008 Annual Update—Accounting & Auditing: On the Horizon—Issues for Audits of Public Entities* (course ID kep)

.114 To register or learn more, visit [www.cpa2biz.com](http://www.cpa2biz.com).

### Webcasts

.115 Stay plugged in to what is happening and earn CPE credit right from your desktop. AICPA webcasts are high quality, two-hour CPE programs that bring you the latest topics from the profession's leading experts. Broadcast live, they allow you to interact with the presenters and join in the discussion. If you cannot make the live event, each webcast is archived and available on CD-ROM.

### ***CFO Quarterly Roundtable Series***

**.116** The CFO Quarterly Roundtable Series, brought to you each calendar quarter via webcast, covers a broad array of "hot topics" that successful organizations employ and subjects that are important to the CFO's personal success. From financial reporting and budgeting, and forecasting to asset management and operations, the roundtable helps CFOs, treasurers, controllers, and other financial executives excel in their demanding roles.

### ***SEC Quarterly Update Series***

**.117** The SEC Quarterly Update Webcast Series, brought to you each calendar quarter, showcases the profession's leading experts on what is "hot" at the SEC. From corporate accounting reform legislation and new regulatory initiatives to accounting and reporting requirements and corporate finance activities, these hard-hitting sessions will keep you "plugged in" to what is important. A must for preparers in public companies and practitioners who have public company clients, this is the place to be when it comes to knowing about the areas of current interest at the SEC.

### **Member Service Center**

**.118** To order AICPA products, receive information about AICPA activities, and get help with your membership questions, call the AICPA Service Operations Center at (888) 777-7077.

### **Hotlines**

#### ***Accounting and Auditing Technical Hotline***

**.119** Do you have a complex technical question about GAAP, other comprehensive bases of accounting, or other technical matters? If so, use the AICPA's Accounting and Auditing Technical Hotline. AICPA staff will research your question and call you back with the answer. Beginning January 14, 2008, hotline hours were extended so that the hotline is now available from 9 a.m. to 8 p.m. on weekdays. You can reach the Technical Hotline at (877) 242-7212 or at [www.aicpa.org/Professional+Resources/Accounting+and+Auditing/Accounting+and+Auditing+Technical+Help/](http://www.aicpa.org/Professional+Resources/Accounting+and+Auditing/Accounting+and+Auditing+Technical+Help/).

#### ***Ethics Hotline***

**.120** In addition to the Technical Hotline, the AICPA also offers an Ethics Hotline. Members of the AICPA's Professional Ethics Team answer inquiries concerning independence and other behavioral issues related to the application of the AICPA Code of Professional Conduct. You can reach the Ethics Hotline at (888) 777-7077.

### **Annual Conference**

**.121** The AICPA sponsors an annual National Conference on Current SEC and PCAOB Developments in December each year. The three-day conference is designed to provide comprehensive SEC and PCAOB updates directly from the regulators. For further information about the conference, call (888) 777-7077 or visit [www.cpa2biz.com](http://www.cpa2biz.com).

## AICPA Launches IFRS.com Web Site

**.122** In May 2008, the AICPA launched a new Web site, [www.ifrs.com](http://www.ifrs.com), to provide current information about developments in international convergence. The growing acceptance of IFRS as a basis for U.S. financial reporting represents a fundamental change for the U.S. accounting profession. Acceptance of a single set of high-quality accounting standards for worldwide use by public companies has been gaining momentum around the globe for the past few years.

**.123** Developed by the AICPA, in partnership with its marketing and technology subsidiary, CPA2Biz, IFRS.com provides a comprehensive set of resources for accounting professionals, auditors, financial managers, audit committees, and other users of financial statements.

**.124** The Web site features tools and resources to help CPAs get acquainted with IFRS, the surrounding issues, and available support. Resources include a history of convergence, a high-level overview of the differences between IFRS and U.S. GAAP, FAQs, articles, textbooks, CPE courses and live conference training, helpful links, and assistance for audit committee members.

## SEC Research

**.125** The SEC has posted two useful guides to its Web site. The first guide provides an overview of how to research the federal securities laws through the SEC Web site and has been provided by the SEC as a service to investors and members of the public. This guide can be accessed at [www.sec.gov/investor/pubs/securitieslaws.htm](http://www.sec.gov/investor/pubs/securitieslaws.htm). The second guide provides information on how to research public companies through Electronic Data Gathering Analysis and Retrieval (EDGAR) on the SEC Web site by providing tips and answers to FAQs. EDGAR provides free public access to corporate information and SEC filings. The guide states that to use EDGAR effectively, you should know which categories of information appear in which SEC filings and which search methods would work best. In addition, you should also understand the limitations of EDGAR, which this guide can help explain. This guide can be accessed at [www.sec.gov/investor/pubs/edgarguide.htm](http://www.sec.gov/investor/pubs/edgarguide.htm).

## The Center for Audit Quality

**.126** The CAQ, which is affiliated with the AICPA, was created to serve investors, public company auditors, and the markets. The CAQ's mission is to foster confidence in the audit process and to aid investors and the capital markets by advancing constructive suggestions for change rooted in the profession's core values of integrity, objectivity, honesty, and trust.

**.127** To accomplish this mission, the CAQ works to make public company audits even more reliable and relevant for investors in a time of growing financial complexity and market globalization. The CAQ also undertakes research, offers recommendations to enhance investor confidence and the vitality of the capital markets, issues technical support for public company auditing professionals, and helps facilitate the public discussion about modernizing business reporting. The CAQ is a voluntary membership center that supports member firms that audit or are interested in auditing public companies with education, communication, representation, and other means. To learn more about the CAQ, visit <http://thecaq.aicpa.org>.

### ***The CAQ SEC Regulations Committee***

**.128** The CAQ SEC Regulations Committee meets periodically with the staff of the SEC to discuss emerging technical accounting and reporting issues related to SEC rules and regulations. The mission of the SEC Regulations Committee is to protect investors by improving the quality of public company financial reporting by identifying, discussing, and facilitating resolution of issues relating to the promulgation, interpretation, and application of SEC rules, regulations, and policies with the assistance of the SEC staff, and communicating those matters publicly on a timely basis. You can view meeting agendas, highlights, and discussion documents at <http://thecaq.org/resources/secregs.htm>.

### ***The International Practices Task Force***

**.129** The International Practices Task Force (IPTF) is a task force of the CAQ SEC Regulations Committee. IPTF also meets periodically with the staff of the SEC to discuss and focus on international emerging technical accounting and reporting issues related to SEC rules and regulations. The mission of the IPTF is to protect investors by improving the quality of public company financial reporting by identifying, discussing, and facilitating resolution of issues relating to the promulgation, interpretation, and application of SEC rules, regulations, and policies with the assistance of the SEC staff, and communicating those matters publicly on a timely basis. Meeting highlights, agendas, and discussion papers can be accessed at <http://thecaq.org/resources/iptf.htm>.

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**.130** This Audit Risk Alert replaces the *SEC and PCAOB Alert—2007/08*.

**.131** The *SEC and PCAOB Alert* is published annually. As you encounter relevant issues that you believe warrant discussion in next year's Audit Risk Alert, please feel free to share them with us. Any other comments that you have about the Audit Risk Alert would also be appreciated. You may e-mail these comments to [killuzzi@aicpa.org](mailto:killuzzi@aicpa.org) or write to

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